



**Director of
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EC: Collapse of Conference

The EC summit in Brussels ended in failure yesterday when Prime Minister Thatcher refused to compromise on demands that the UK's annual EC budget payments be substantially cut. [redacted]

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The impasse prevented agreement on vital budget reform measures, which increases the chances of EC bankruptcy this fall. Failure came despite eleventh-hour efforts by President Mitterrand, who chaired the meeting, to forge a compromise. [redacted]

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This is the second time in four months that EC leaders have failed to resolve the EC's financial crisis. Last-minute confusion was heightened when Irish Prime Minister FitzGerald walked out of the meeting over a proposal to cut EC milk production. [redacted]

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After the meeting EC Foreign Ministers voted to block \$630 million now owed London from its 1983 budget rebate. [redacted]

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Comment: Thatcher probably will recommend to her Cabinet the unprecedented step of withholding British payments to the Community. Such action would violate the EC treaty and further isolate the UK from other Community members. [redacted]

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The collapse of the summit marks a personal defeat for Mitterrand that may affect his attitudes toward the US in his meetings here later this week. He is probably physically exhausted from the ordeal. Moreover, he may be discouraged with his EC partners, and he probably will not push outstanding US-EC trade disputes as aggressively as he might have if the Community had been able to set its house in order. [redacted]

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Mitterrand may now be more sympathetic to the importance of transatlantic ties because European unity appears to have been dealt another blow. [redacted]

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EL SALVADOR: Foreign Observers for the Election

More than 20 countries and international organizations plan to send official delegations to observe the election on Sunday. []

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Belgium, Canada, Italy, the Netherlands, West Germany, and the UK will send official observer teams, according to the US Embassy in San Salvador. Two international party organizations also will send official delegations, and Austria and Norway each will send an unofficial team. The UK was the only West European country to send observers for the election in 1982. []

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Eleven Latin American countries, including seven from the Caribbean Basin, and the OAS plan to send official delegations. The Near East will be represented by observers from Israel and Egypt. So far no government from the Far East or Africa has agreed to participate. []

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Comment: The expansion of West European representation is due to the increased influence of Christian Democratic parties in several governments and the presence in key foreign policy positions of officials sympathetic to the US point of view. The Salvadorans will be encouraged by the West European response, particularly because San Salvador has struggled to gain European backing for its movement toward representative government. The large number of observers should add to the stature of the electoral process as legitimate and representative. []

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Nicaragua is the only Central American nation that refused to send observers. The Sandinistas probably are trying to avoid potential foreign involvement in Nicaragua's elections scheduled for late this year. They also want to refuse recognition of the Salvadoran election as legitimate. []

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ISRAEL: Proposals for Early Elections

Soaring inflation has prompted one of the small parties in the ruling coalition to join the Labor Party in calling for early elections.

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TAMI Party leader Abuhatzzeira announced on Monday that his party would submit an early elections bill to the Knesset. He said the decision was made in response to the inflation rate—prices rose at an annual rate of 354 percent during January and February—and the need for a government with a more decisive mandate. The Israeli press speculates that Abuhatzzeira also may believe his party will win seats from the faction-ridden National Religious Party.

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The Labor Party has been pushing for debate tomorrow on its own early elections bill. Labor wants an election called for 22 May. Press reports state that Prime Minister Shamir has reconciled himself to early elections but that he does not want them before October or November.

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Comment: Labor's proposal would pass if it received support from TAMI and other members of the Knesset who have said they would back an early elections bill. Shamir may decide to submit his own bill, however, to seize the initiative and to preserve the tradition that such measures come from the leading coalition partner.

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Labor Party chairman Peres wants elections as soon as possible to forestall a challenge over party leadership from former Prime Minister Rabin and possibly former President Navon. Peres also wants to prevent Likud from taking popular economic measures before the election.

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Shamir wants to delay the elections as long as possible, because he believes the economy will improve by fall. In addition, some politicians in Likud believe that it can exploit good relations with the US. They also hope that a backlash from King Hussein's recent remarks on the peace process will hurt Labor, which advocates a more conciliatory approach to the West Bank.

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WESTERN EUROPE: Increased Narcotics Trafficking

International narcotics traffickers rapidly are making inroads into the West European drug market, a development that will complicate US narcotics control efforts. []

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INTERPOL, West German, and British authorities recently warned visiting US officials that the drug trafficking situation in Western Europe is deteriorating. INTERPOL officials cited a 30-percent rise in heroin seizures to 1.5 tons, and a doubling of cocaine seizures to 1 ton in 1983 as signs of increased drug availability. Most officials agreed that drug abuse rates are rising, particularly for cocaine. []

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The officials also reported that the number of trafficking organizations and smuggling routes is growing. Although Pakistan and Turkey supply most of the heroin, Lebanon, Syria, and Southeast Asia are becoming more important sources. Cocaine also is being smuggled directly from South America into Spain, Portugal, France, and Italy. According to West German officials, Italy and Spain have joined the Netherlands as major drug distribution centers. []

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Comment: Growing West European demand will put added pressure on cultivators in Southeast Asia, Pakistan, and South America to ignore crop control efforts. Moreover, South American cocaine traffickers can recover losses caused by US interdiction with profits they make from the trade in Western Europe. Heroin traffickers also will be able to avoid US enforcement efforts by using the expanding trafficking networks in Western Europe. []

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West European governments probably will begin taking a more global view of the drug trade and more aggressive enforcement measures. Nonetheless, significant narcotics control progress in the near term is unlikely because the European public is largely unaware of the health hazards of drug abuse. In addition, coordination is difficult to achieve among enforcement authorities in the various countries. []

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UK: Thatcher Trying To Regain Momentum

Prime Minister Thatcher is trying to reinvigorate her government and improve morale in the Conservative Party. [redacted]

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The US Embassy reports the Conservatives are worried that a series of controversies and questions about the business dealings of the Prime Minister's family are eroding Thatcher's standing in the polls. An influential Tory has said the Prime Minister should provide a greater sense of "strategic direction" to her government. In addition, the Prime Minister's centralization of decisionmaking has caused complaints that she is not adequately consulting colleagues in the Cabinet and that she has lost touch with her party. [redacted]

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Comment: The speech that Thatcher will give on Saturday to Tory activists in Birmingham, a center of working-class conservatism, could give her the opportunity to rebut charges that her second term lacks direction. She probably will point to a more optimistic forecast for the economy and to the positive reaction of the financial markets to the budget. She also may stress her determination to push ahead with changes intended to alter the shape of the UK's welfare state, including denationalizing industry and reforming taxes, education, and local government. [redacted]

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Some of Thatcher's problems stem from the media's greater attention to Tory problems in the absence of controversies within the Labor Party. Moreover, several of her most important Cabinet ministers have not performed up to expectation. Thatcher probably has been encouraged, however, by Chancellor of the Exchequer Lawson's effective presentation of the budget last week [redacted]

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Although Thatcher is unlikely to change her highly personalized style of leadership, she may try to improve communications with the rank and file by returning former party chairman Parkinson to some official post later this year. Parkinson is an effective advocate of Thatcher's policies. [redacted]

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JAPAN-USSR: Results of High-Level Meeting

The talks in Moscow last week between Deputy Foreign Ministers Nakajima and Kapitsa reportedly were unproductive on key issues, but the two sides are increasing contacts. []

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The Japanese report the Soviets increased their criticism of the US, took a tougher line on the Northern Territories and SS-20 deployments in Asia, and generally tried to intimidate Tokyo. They believe the unprecedented presence of two Soviet military officers at the talks stiffened Kapitsa's presentations, especially on the threat posed by the US military forces in the western Pacific. []

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Nakajima's brief meeting with Foreign Minister Gromyko also was unproductive. Gromyko criticized Japan's support of US policies and said the current state of bilateral relations does not justify an early visit to Tokyo. []

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The two sides agreed, however, to continue holding political consultations at least once a year and to have occasional lower level talks on regional issues. They also agreed to resume negotiations on a double taxation treaty. []

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In other developments, Japan's Minister of Agriculture and Fisheries has agreed to visit the USSR in response to a Soviet invitation extended earlier this month. The Japanese Confederation of Labor intends to send a delegation to Moscow later this year, its first since 1973. In addition, the Japanese Junior Chamber of Commerce has reextended an invitation withdrawn after the KAL incident to the head of the USSR's Young Communist League to visit Japan. []

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Comment: Officials in the Japanese Foreign Ministry say they are satisfied with the talks and insist it is important to maintain a dialogue and to explain Japan's position to the USSR. Although they claim Tokyo will not give ground on important issues, they have sounded out Washington about Prime Minister Nakasone's suggestion that the economic summit in London consider relaxing economic sanctions as a sign of interest in improving ties with the USSR. []

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The Soviets presumably see little prospect for better relations while Nakasone remains in office. Nonetheless, Moscow welcomes every opportunity to host Japanese delegations and to send representatives to Japan, in order to promote its positions with the Japanese public. []

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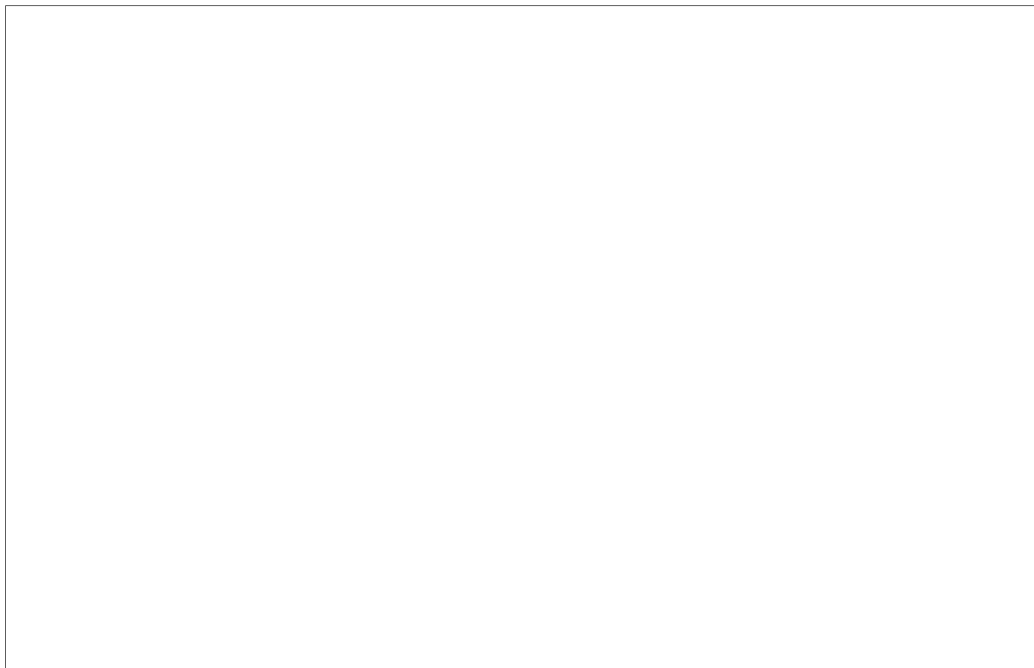
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USSR-AFGHANISTAN: Criticizing Indifference to the War

Komsolmolskaya Pravda has published a followup story to its expose in February about official mistreatment of a Soviet soldier who became a paraplegic as a result of combat in Afghanistan. The paper reports that the local officials who were slow in helping the soldier to find a job and an apartment either have been fired or expelled from the party. An earlier newspaper article had criticized civilians for complaining about living conditions at home when Soviet soldiers are risking their lives in Afghanistan. [REDACTED]

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Comment: These are the first items in the media hinting at popular indifference or disdain for the four-year war. The problem is largely one of the government's own making, because its concern about potential domestic dissatisfaction has drastically limited internal media coverage of the conflict. Nonetheless, the description of a combat-disabled Soviet soldier and the warnings on proper treatment of disabled veterans probably are intended to improve the low morale of Soviet military personnel. They also provide another indication of continuing Soviet resolve in Afghanistan. [REDACTED]

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POLAND: Results of Party Conference

Premier Jaruzelski seems to have emerged from the recent party conference in a strong political position. The conference approved without difficulty several controversial documents on rules and policies and unanimously endorsed Jaruzelski's leadership. In two major speeches the Premier criticized the slow pace of economic reform, chastised unruly party bureaucrats, and warned workers' self-management groups that he would not tolerate too much independence. []

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Comment: Jaruzelski's tougher treatment of the church and dissident intellectuals before the conference may have preempted a challenge to his authority by party hardliners. The results of the conference underscore Jaruzelski's increasing control over the party apparatus. His criticism of party bureaucrats, however, suggests that he does not have total control and that militants continue to obstruct some of his policies, notably on economic reform. []

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HUNGARY: Improving Financial Outlook

The US Embassy reports that Hungary is making good progress obtaining foreign credits to meet medium- and long-term debt repayments of \$1.5 billion this year. US bankers say that a \$150 million loan syndication is fully subscribed and could be increased to \$200 million. The Hungarians also are close to reaching agreement with the World Bank on project loans totaling \$200 million, and Japanese banks are arranging a cofinancing package that will provide about \$300 million. Earlier this year the IMF agreed to provide Hungary a standby credit of nearly \$440 million. []

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Comment: The enthusiastic response of bankers to Hungary's loan requests brightens its financial prospects for this year considerably. Hungary's foreign borrowings probably soon will reach its original goal of \$1.1 billion, and a projected current account surplus of about \$400 million would close the remaining financial gap. Budapest reportedly is considering seeking another syndication later this year from commercial banks to build up its foreign exchange reserves. []

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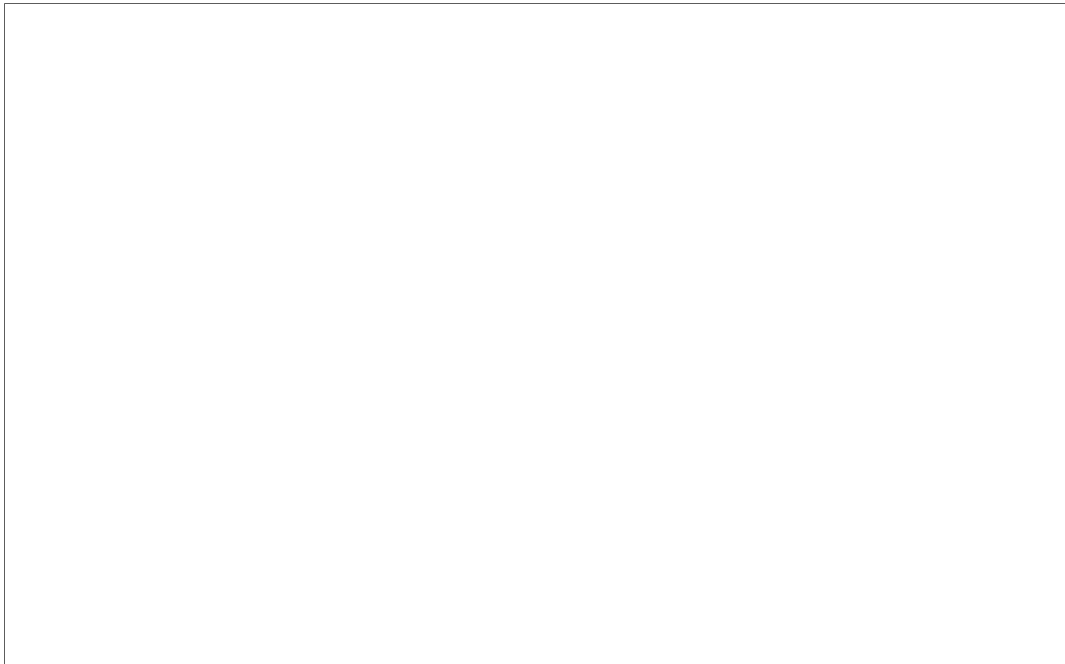
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INDIA: Nationwide Port Strike

Three-fourths of India's foreign trade has been paralyzed since Friday by a strike at the 10 major ports. All of the labor federations, including those affiliated with Prime Minister Gandhi's Congress Party and those aligned with the Communist parties, are demanding substantially higher wages and benefits. The government declared the strike illegal and called in the Navy to help unload the most essential imports. According to the press, strike-related violence already has led to six deaths and 500 injuries. [redacted]

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Comment: Imported petroleum accounts for about 60 percent of domestic consumption, and industrial production will be crippled by oil shortages if the strike continues for two more weeks. Gandhi probably will be cautious about using military personnel, who do not relish the role of strikebreaker. She may try to undermine labor unity through selected arrests and concessions. [redacted]

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Special Analysis

PERSIAN GULF: Iran's Subversive Threat

Several factors are now impelling Tehran to resort increasingly to subversion in the Persian Gulf. The success of Iranian-sponsored terrorist activities in Lebanon has demonstrated the utility of terrorism to the Khomeini regime at a time when Iran's current military campaign against Iraq is at least temporarily stymied. Tehran may believe that subversion in the Gulf will force the moderate Arab regimes in the region to withdraw their financial support to Baghdad. Subversion also is an attractive initial response to any Iraqi moves to interdict Iranian oil exports. The use of local Shias as surrogates would enable Iran to disavow its involvement and reduce the likelihood of US military intervention.

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Iran has a sophisticated subversive network stretching throughout the Persian Gulf and that it has ambitious plans to mount terrorist operations throughout the region.

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the Revolutionary Guard, an Iranian Government organization with its own cabinet minister, maintains overall responsibility for training Shias in the Persian Gulf area in subversive techniques.

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Arrested dissident Shias say that operations directed against the Arab states in the Persian Gulf need prior approval from Tehran. Several dissident Shia groups are based in Tehran and use official Iranian state radio and television to broadcast propaganda to the Persian Gulf in Arabic.

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Iran has recruited and given guerrilla training to more than 1,000 Shias.

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As demonstrated by the bombings in Kuwait last December, some of these Shias can carry out terrorist operations on short notice.

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Prospects

The Shia dissidents do not yet appear strong enough to take power in any of the Gulf states, but they may be in a position to cause substantial damage to vulnerable military and economic facilities. The security services in the Persian Gulf states are poorly equipped to prevent terrorist attacks. Most are hampered by inadequate training, bureaucratic bickering, and limited knowledge about Shia subversive activities in their areas. [redacted]

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US personnel and facilities will be key targets for Iranian-sponsored subversion. Shia subversives also would be likely to go after logistic facilities that help the US sustain a military presence in the Gulf. [redacted]
[redacted]

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Iranian subversion in the Gulf may promote closer relations between Persian Gulf states and the US as they look to Washington for increased security cooperation. On the other hand, closer security cooperation is likely to bring higher US visibility in the region. This is one of the key elements Iran uses to justify attacking Persian Gulf regimes and to attract Shia fundamentalists. [redacted]

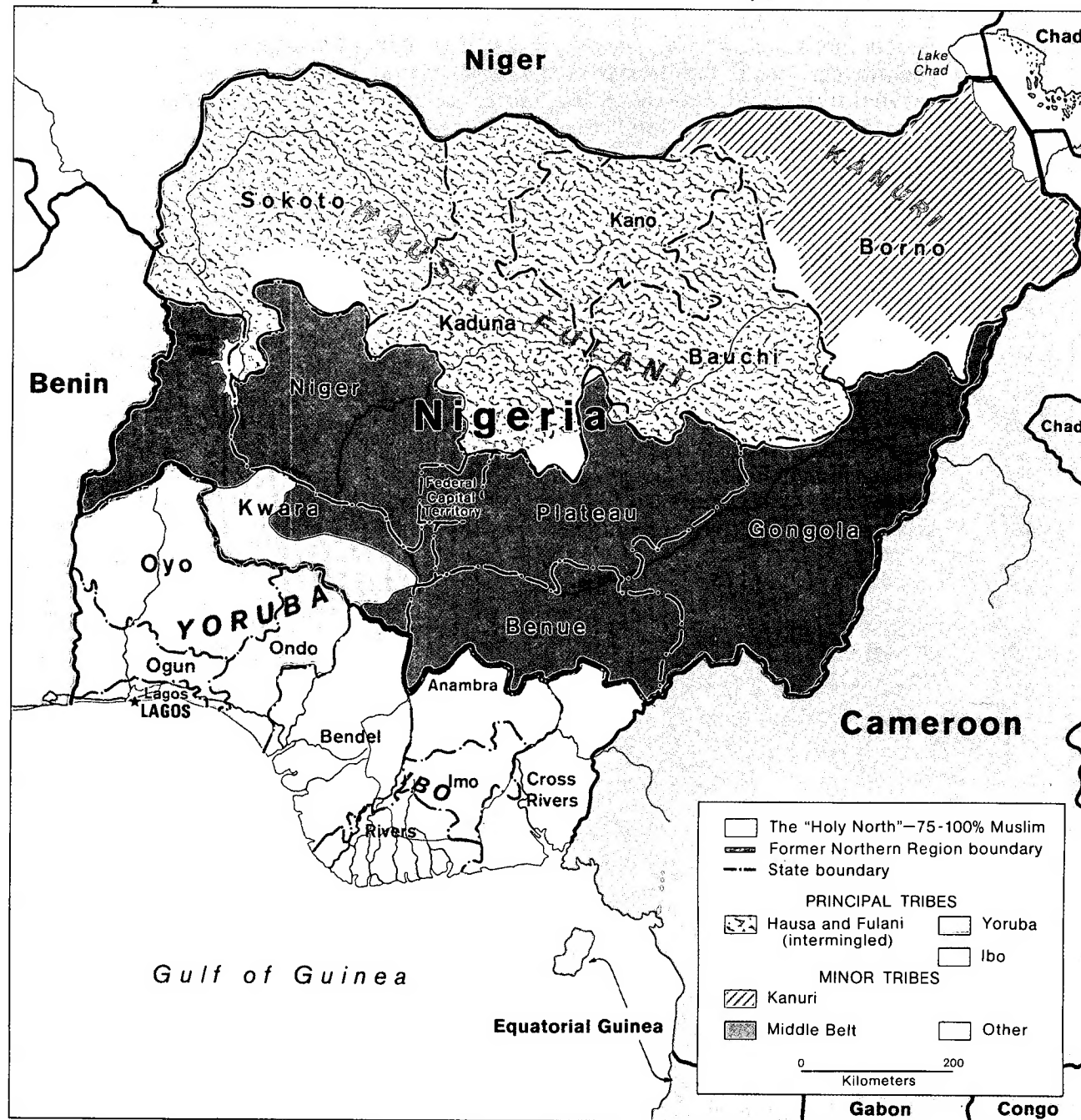
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Tribal Groups

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Special Analysis

NIGERIA: New Government in Trouble

The image of General Buhari's three-month-old military government is being damaged by lack of decisive leadership, declining economic conditions, and persistent rumors of coup plotting. The regime is preoccupied with solidifying its position and preventing economic discontent from exploding while it searches for international financial assistance. Buhari's failure to move beyond promises of economic relief and the delay in trying former civilian politicians are beginning to raise serious concern among the public and the military.

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The regime has done little to make good on its pledge to revitalize the economy. Costs of food remain well above controlled prices and spot shortages of rice and other staples have occurred. Efforts by soldiers to force prices down have not been effective and have alienated traders.

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Manufacturing activity in some areas of the country is averaging about 25 percent of capacity, and as much as half of the labor force is laid off. Financially strapped states have cut public services, reintroduced unpopular school fees and local taxes, and delayed payment of back salaries.

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Lagos is discussing a \$2.4 billion loan with the IMF, but it is reluctant to accept the key requirement of devaluing its currency. Although Nigeria has increased oil production 300,000 barrels per day above its OPEC quota of 1.3 million barrels per day, this has had little immediate financial impact.

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Diversionsary Tactics

To divert attention from the economy, the regime continues to publicize the corruption of former civilian officials,

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There appears to be little public sympathy for civilian politicians, but the constant media attention also has raised embarrassing questions about past financial dealings of Buhari and other members of his government.

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Senior military officers are apprehensive that tribal discontent may increase if it appears that members of certain tribes are being singled out for punishment while others get off lightly.

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[redacted] the Yorubas in particular believe the northern, Hausa-dominated government is biased against their former leaders. [redacted]

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The government and the press have contributed to a growing xenophobia by sensational reporting of alleged illegal economic activities by foreigners living in Nigeria and foreign companies operating there. Lagos also has raised the specter of an invasion financed by exiled lieutenants of former President Shagari. [redacted]

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To try to forestall a counter coup, senior officers are continuing to shift command assignments and to purge suspect officers.

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[redacted] Most observers believe it is only a matter of time before some group attempts a counter coup. [redacted]

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Outlook

The best the government can hope for in the next several months is to try to slow the economy's decline. From Buhari's perspective, austerity measures dictated by the IMF are an unpalatable alternative in the absence of some tangible improvement in living conditions. Moreover, fear that any bold decision will provoke a counter coup will strengthen the government's belief that it has no choice but to sidestep tough austerity measures. [redacted]

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Actions taken by senior officers have kept coup plotters off balance so far. The discontent among junior- and middle-level officers, however, is likely to intensify. Light punishment of former civilian officials could set off a coup attempt. [redacted]

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Unity among senior officers is likely to erode as criticism of the government increases and the search for economic solutions becomes more desperate. Some of Buhari's colleagues, including fellow northerners, could become persuaded that a change at the top is needed. Chief of Defense Staff Idiagbon, a Yoruba and the number-two man in the regime could become a threat to Buhari and his allies. [redacted]

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